

Fiscal Recovery

The road to fiscal recovery for the City of San Diego begins with this budget. The Mayor firmly believes that with the help of the City Council, community and business groups and San Diego's citizens, San Diego can and will regain strong fiscal health. The key issues paramount to the City's success are numerous. Some standouts include:

- Structurally Sound Balanced Budget
- Provision of Core General Fund Services
- Establishment of Strong Reserves
- Addressing the Pension Unfunded Liability
- Managed Competition
- Citywide Reorganization
- Addressing Retiree Health Care Costs
- Business Process Re-engineering
- Funding Deferred Maintenance



At a Glance

Fiscal Recovery

Structurally Sound Balanced Budget To pursue the future fiscal health of the General Fund requires a clear, complete picture of current General Fund needs and allocations. For example, all supplemental positions and expenses within the General Fund need to be accounted for, evaluated, and addressed appropriately, either by budgeting the expense or position or by curtailing or eliminating the activity necessitating the expense.

Departments were asked to submit a comprehensive listing of supplemental positions as part of the Fiscal Year 2007 Proposed Budget preparation process. They were then required to both justify the need for the position to their department management and identify a manner in which they could pay for the position within their current appropriation or forego inclusion of the position in their proposed budget and eliminate it from their organizational structure.

The following General Fund supplemental positions have been identified for inclusion in the Fiscal Year 2007 Proposed Budget:

Area of Service	FTE
Community and Legislative Services	3.00
Public Works	70.45
Public Safety	67.10
Neighborhood And Customer Services	52.57
Land Use and Economic Development	22.25
Chief Financial Officer	28.78
Business and Support Services	14.00
Mayor / Chief Operating Office	2.00
City Attorney	9.11
Grand Total	269.26

Some of these positions are revenue-producing and are therefore self-funded; others required supplemental funding from growth in General Fund revenues.



Provision of Core General Fund Services It is necessary to take a fresh look at the types of services currently being funded with General Fund dollars and to determine if all are core services that should appropriately be paid for with General Fund revenues. Core services would fall within the following categories:

- Public Safety Services
- Park & Recreation Services
- Transportation Services
- Library Services
- Facility Maintenance Services

If a review of the service levels currently provided for in these categories reveals deficiencies in funding, and there exist other services supported by General Fund dollars that do not fall within these categories, these “non-core” services must be evaluated for possible reduction or elimination. In the majority of cases, these will be services that may be desirable for our community, however, the City must concentrate on fulfilling the primary responsibilities of the General Fund at optimum levels before committing funds to other, non-core services.

Fiscal Recovery

Reserves The Unappropriated Reserve is established to fund General Fund emergencies and assist in maintaining a favorable bond rating. The City must have the ability to carry long-term debt. Credit agencies, such as Moody's, analyze the City's reserve levels when issuing bond ratings: A healthy reserve level will allow the City to acquire debt at lower interest rates, saving the City and taxpayers millions of dollars. In addition, a strong reserve will help insulate City services against periodic swings in the economy. Specific expenditures are not budgeted within this reserve and no specific legal guidance or policy restrictions are placed on the use of these funds, however, Mayor and City Council authorization is necessary to expend these funds. Council Policy 100-20, adopted October 15, 2002, sets a goal of bringing the General Fund Reserve to five percent of the annual General Fund revenues by Fiscal Year 2014. The policy also includes a requirement to make higher contributions in years when growth of the General Fund exceeds two percent. In those years, contribution to the Unappropriated Reserve should be 10 percent of all revenues above the two percent growth. This policy and the future funding of the reserve will be re-examined during the upcoming fiscal year. Suggested changes will be brought before the City Council for consideration. It is the goal of the Mayor to go above and beyond this policy and increase reserves to eight percent by Fiscal Year 2010. To that end, the Proposed Fiscal Year 2007 Budget adds over \$22 million to the City's General Fund reserves, which brings the funding ratio to approximately 5.72 percent. The actual incremental funding of the reserve in Fiscal Year 2007 is directly tied to the issuance of Pension Obligation Bonds (POBs). If the POBs are not issued in Fiscal Year 2007, then the dollars that otherwise would have been deposited in the reserve will be required to satisfy the City's minimum payment to SDCERS.



Pension One of the largest challenges facing the City is the Unfunded Actuarial Accrued Liability (UAAL) of the San Diego City Employees Retirement System (SDCERS). One of Mayor Sanders' commitments to voters is to develop a strategy to both lower the obligations facing the system and begin paying down the UAAL. One of the key steps in controlling lowering the obligations was achieved on March 27, 2006, when the City Council voted to put two of Mayor Sanders' measures on the ballot in November 2006. One of these measures will subject future increases in pension benefits to voter approval. In addition, the Fiscal Year 2007 Proposed Budget included \$81 million to pay the City's normal cost to SDCERS and \$374 million in net proceeds from the issuance of Pension Obligation Bonds. The debt service for the POBs will come from a combination of rates applied to respective City budgets and a portion of the employee pick-up. It is the Mayor's goal to achieve 85 percent funding levels in the pension system.

Fiscal Recovery

Managed Competition Another measure added to the November 2006, ballot is Managed Competition, which would allow City employees to competitively bid for certain jobs alongside external vendors. This will allow City departments the opportunity to demonstrate their efficiencies by competing with private companies on a level playing field. Managed Competition is expected to maximize City resources and serve as a catalyst for positive internal City reforms that will improve the fiscal health of the City.

Citywide Reorganization The structure of the City of San Diego has undergone, and will continue to undergo, a realignment intended to convert the City into a more manageable and responsive organization. Many functions that previously operated independently have now been reorganized under newly created Deputy Chief positions. The Deputy Chiefs will report directly to the Chief Operating Officer and to the Mayor. These functional organizational shifts will do much to aid the fiscal recovery of the City, as they will allow better focus of resources and clearer accountability.

Retiree Health Care Costs Perhaps the next area generating financial pressure on the City is the rising cost of retiree health care. Under Governmental Accounting Standards Board 45, public agencies across the country will have to begin reporting and recording this liability. If changes to the current plan are not made, it has been projected that the City's unfunded Other Post Employment Benefit costs are approximately \$978 million. This is in addition to the City's unfunded pension liability. The Fiscal Year 2007 Proposed Budget includes nearly \$21 million to cover the estimated cost of this benefit. In addition, there is \$5 million included in the budget to begin funding a reserve to cover the future cost of these benefits should the City not make changes to the current benefit.



Business Process Re-engineering Over the course of the next three years, every City process and department will be professionally and thoughtfully examined with the express purpose of reducing costs and creating managerial efficiency. Instead of developing knee jerk solutions, the City is employing Business Process Re-engineering (BPR). In order to budget most conservatively, there are no savings budgeted as a result of BPR; however, the City expects to eliminate 500 positions in Fiscal Year 2007 as a result of BPR.

Deferred Maintenance As in most organizations with severe financial pressures, the City has long neglected the maintenance of most of its assets. This includes streets, sewer and water systems, buildings and equipment. Included in this budget is \$20 million in funding to begin addressing the City's deferred maintenance needs. Approximately \$12 million of the \$20 million is dependent upon the issuance of POBs. The development of a complete inventory of needs is currently underway and will be presented to the City council in the coming fiscal year. In the meantime, a number of pressing needs will be funded as part of this budget including street repair, roof repair, building maintenance, hillside/slope repair, and storm drain improvements.

Economy

San Diego by the numbers...



Unemployment _____ 4.1%

Wage & Salary Employment _____ 1,290,800

Housing Median Price _____ \$502,000

Source: State of California Employment Development Department, DataQuick Information Systems, and San Diego Union-Tribune for February 2006

Economic conditions are the primary forces that dictate either growth or decline in local government revenues. The stronger the economy, the stronger the revenue growth and vice versa; a slowdown in the economy eventually leads to a decline in municipal revenue. Analysis of various economic trends on the local, State, and national level helps to shed light on current trends in a given economic sector and aids in the forecast of a particular revenue source for the next fiscal year. The City of San Diego budget staff has analyzed individual economic sectors to prepare major revenue projections for the Fiscal Year 2007 Proposed Budget.



At a Glance

Economy



The **Housing** sector of the economy, on both the local and State levels, continues to attract the attention of economists nationwide, Statewide as well as locally. The California Association of Realtors predicts a “soft landing” of housing prices in 2006. The California housing market also is an area of concern for The UCLA Anderson Forecast economists, who predict that the cooling off of local housing markets will lead to a slowdown in spending and some job losses in construction and other real estate related industries Statewide. A reduction in home prices in San Diego County is not expected to result in significant job losses. A flattening in home prices, a moderate decrease in sales and new building, and two years of weak growth for California and San Diego housing markets is in the forecast for 2006.



According to DataQuick Information Systems, the overall median sales price in February 2006 was \$502,000, up by \$12,000 from January 2006 and 6.4 percent higher than in February 2005. Despite the gain in overall prices, the volume of sales in February 2006, declined for the 20th straight month, totaling 2,865 transactions, down by 16.8 percent from the same period a year ago.

The San Diego Association of Realtors reports that unsold listings stand at their highest level in eight years. It takes an average of 68 days to sell a single-family home this year, compared to 59 days a year ago.



Mortgage interest rates continue to go up slowly. Freddie Mac reported that the average 30-year, fix-rate mortgage rose in the first week of March to 6.37 percent, the highest level in more than two years. A year ago, the rate stood at 5.85 percent. According to Freddie Mac, adjustable-rate mortgages, or ARMs, that are tied to Treasury interest rates and designed to adjust after five years, averaged 6.03 percent, compared to 5.22 percent a year ago.

According to DataQuick, San Diego home buyers have already backed off from their use of ARMs. In November 2004, about 83 percent of buyers in San Diego County chose adjustable-rate mortgages. A year later, this figure dropped to 73 percent; in January of this year, it dropped again to 54 percent.

Economy

Marney Cox, SANDAG's Chief Economist, predicts that a slowdown in the rate of increase in residential real estate will continue in 2006, with prices increasing approximately 5 percent. Approximately 12,000 new residential permits will be authorized during 2006, slower than 2005, primarily due to an expected decline in condo conversions. No major collapse is expected in San Diego's residential market in 2006, given two factors: economic conditions and job growth. A modest growth in interest rates is in the forecast in 2006. The cooling off of the housing market will eventually affect consumer spending, but not earlier than the third quarter of this year, according to Mr. Cox's forecast.



Total building permit valuation (residential and nonresidential) is an indicator for overall construction activity. During Fiscal Year 2005, the value of permits issued totaled nearly \$2.0 billion or 1.0 percent more than the prior fiscal year. For the first half of Fiscal Year 2006, the value of permits issued totaled approximately \$959.7 million. New residential construction is an indicator of trends in both the construction industry and the overall economy. For single family units, 1,271 permits were issued in Fiscal Year 2005, down 32.3 percent from Fiscal Year 2004.

The slowdown of the real estate market has been taken into consideration for budgeting of

Property Tax revenue growth between Fiscal Year 2006 and Fiscal Year 2007.



San Diego remains one of the most desirable [travel](#) destinations in the U.S. However, Smith Travel Research indicated that for 2005, San Diego's hotel room demand growth was slower than other competitive markets in the Pacific region.



Economy



San Diego's market benefits from its diverse visitor mix, since it is not overly dependent on business travel, which is cyclical and depends on economic conditions. While the business segment spends more per person and stays primarily in hotels, the large volume is in the leisure market, which continues to grow locally and nationwide and now contributes more room nights than the business segment. In San Diego, hotel room night demand is projected to grow by 2 percent in 2006, down from the 3 percent growth in 2005. Hotel room nights sold in the market will reach 14.5 million room nights in 2006, putting occupancy at 72.9 percent, an increase of 0.9 percent. The average daily rate is expected to continue growing along with the national rates. The forecast is for 4.5 percent growth in the rate to \$127.09 per night.

Downtown San Diego continues to generate high demand at high average daily rates. Home to the San Diego Padres' new PETCO Park, the San Diego Convention Center, the

Gaslamp Quarter, Horton Plaza and numerous restaurants, demand continues to be strong for the urban experience. In the forecast for 2006, demand will outpace supply due to increases in group and corporate travel, following San Diego's current lodging trends. In addition, leisure travelers who never previously stayed downtown are now finding it desirable.

Overall, San Diego tourism performance is projected to have a moderate growth in 2006. This trend is reflected in the Transient Occupancy Tax revenue growth rate in Fiscal Year 2007.



The **unemployment** rate in San Diego County was 4.1 percent in February 2006, up from 4.0 percent in January, but below the year-ago estimate of 4.7 percent. This compares with an unadjusted unemployment rate of 5.4 percent for California and 5.1 percent for the nation during the same period. Between January 2006 and February 2006, nonfarm wage and salary employment in San Diego County rose by 6,500 jobs to reach 1,290,800 jobs.

- Government sector - the largest increase of 2,500 jobs

Economy

- Leisure and hospitality rose by 1,400 jobs, reflecting increases in accommodation and food services
- Professional and business services expanded by 1,300 jobs. Over three-quarters of the growth occurred in professional, scientific and technical services
- Trade, transportation and utilities reported a loss of 1,100 jobs due to seasonal cutbacks in retail trade as the holiday shopping season drew to a close, a normal trend to see job declines in this industry in January and February



increasing by 4.9 percent and 5 percent, respectively. The sales and use tax revenue forecast, prepared by Department of Finance, related taxable sales to economic factors such as income, employment, housing starts, new vehicle sales, and inflation.

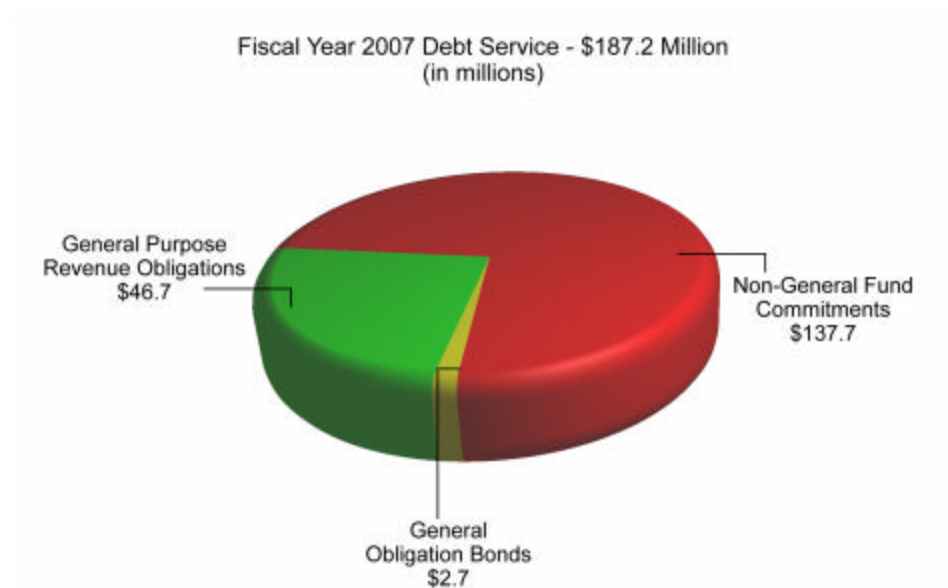
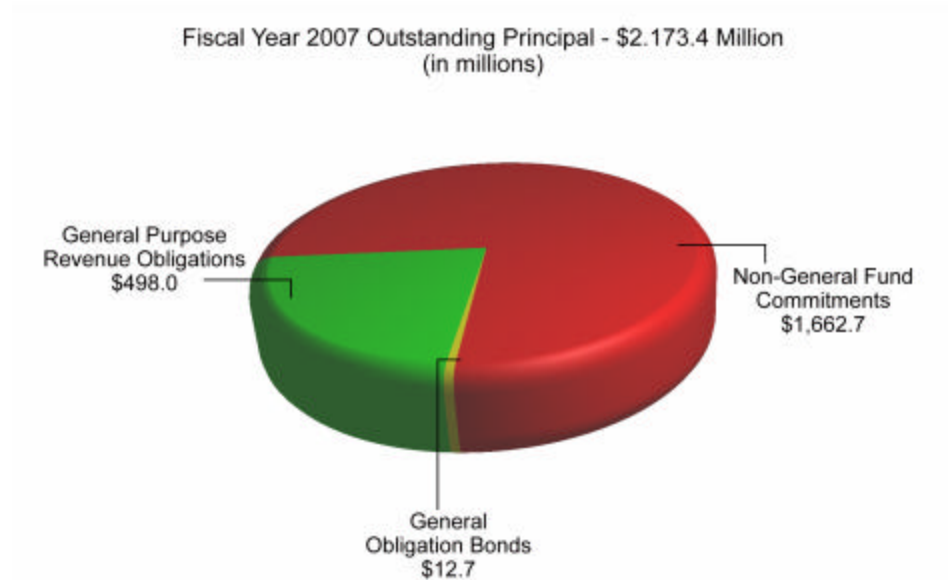
Consumer debt has increased tremendously and is at a near-record high. In the last two quarters of 2005, consumers spent more than their disposable income, and an increase in mortgage rates negatively impacted mortgage refinancings. In addition, energy costs will likely make up a bigger part of consumers' budgets. These concerns have been taken into consideration for the sales tax revenue growth in Fiscal Year 2007.

San Diego County Selected Economic Indicators	
Indicator	2006 Estimated Annual Change
Gross Regional Product (billions)	\$161,087
Real Change	4.9%
Personal Income	\$55,533
Per Capita Income	\$40,661
Real Change	1.3%
Sales Activity	
Total Taxable Sales	\$53,773
Real Change	\$39,819
Per Capita Retail	
Sales	6.5%
Real Change	4.8%

Source: San Diego Chamber of Commerce

According to the California Department of Finance, **taxable sales grew** by 8.5 percent in 2004. Preliminary data received for the first three quarters of 2005 indicates that growth in taxable sales continues to increase at a slower rate, with sales for 2005 expected to be up by just 5.3 percent. Taxable sales are anticipated to continue increasing at similar year-over-year rates for 2006 and 2007,

Debt Management



- Tax and Revenue Anticipation Notes (TRANS) are issued annually to meet General Fund cash flow needs in anticipation of the receipt of property tax revenues in November.
- The City of San Diego Redevelopment Agency is authorized to issue Tax Allocation Bonds as a means for financing redevelopment projects.
- The San Diego Housing Commission's Multifamily Bond Program administers multifamily tax-exempt financing for various projects.

Debt Management

City of San Diego **General Obligation Bond ratings** as of March 2006:

- Moody's Investors Service (A3)
- Fitch Ratings (BBB+)
- Standard & Poor's (Suspended)

Under the California Constitution, the City may issue **General Obligation Bonds** subject to the approval of two-thirds of those voting on the bond proposition. General Obligation Bonds represent an indebtedness of the City secured by its full faith and credit. An ad valorem (value-based) tax on real property is levied to pay principal and interest on General Obligation Bonds.

Lease Revenue Bonds and Certificates of Participation are lease obligations secured by an installment sale agreement or by a lease-back arrangement with a public entity, where the general operating revenues are pledged to pay the lease payments, which are, in turn, used to pay debt service on the bonds or Certificates of Participation. These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval. Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated. The governmental lessee is obligated to place in its annual budget the rentals that are due and payable during each fiscal year the lessee has use of the leased property.

Revenue Bonds are payable solely from net or gross non-ad valorem tax revenues derived from General Fund revenues, tax increment revenues, rates or tolls, or fees, charges or rents paid by users of the facility constructed with the proceeds of the bond issue.

Pursuant to Section 90 of the City Charter, the City may incur bonded indebtedness for the purpose of acquiring, constructing, or completing any municipal improvements, not including improvements to the City's water facilities, in an amount not to exceed 10 percent of the total assessed valuation of all real and personal property in the City subject to an annual property tax levy. The City may also incur bonded indebtedness for the purpose of acquiring, constructing, or completing water facilities in an amount not to exceed 15 percent of the total assessed valuation. The combined limit on outstanding indebtedness for both non-utility related improvements and water related improvements is an amount not to exceed 25 percent of the total assessed valuation.

Based on the assessed valuation as of July 1, 2004, the **legal debt limit**, as defined in Section 90 of the City Charter, was \$7.4 billion (unaudited). As of June 30, 2004, outstanding debt subject to this limit was \$14.4 million. (Includes only the 1991 Public Safety Communications Project General Obligation Bonds. These are the only outstanding bonds for which the City levies an annual property tax.)

In accordance with Section 90.1 of the City Charter, the City issues Revenue Bonds, an obligation payable from the revenues received by the utility, for the purpose of constructing water facilities, which fall outside the legal debt limit as defined in Section 90 of the City Charter. Section 90.2 authorizes the issuance of Revenue Bonds for the purpose of constructing improvements to the City's sewer system.

The table that follows summarizes the City's outstanding debt as of June 30, 2006, and the debt/lease payment for each outstanding issuance for Fiscal Year 2007.

Debt Management

Summary of Debt Obligations

		Principal Outstanding 6/30/2006	Fiscal Year 2007 Debt/Lease Payment	Final Maturity	Budget Department	Primary Funding Source
General Obligation Bonds						
1991	Public Safety Communications Project	\$11,520,000	\$2,329,935	FY 2012	Bond Interest & Redemption	Property Tax
1994	San Diego Open Space Facilities District No. 1 Refunding Series	\$1,170,000	\$438,300	FY 2009	Park & Rec/Open Space	Franchise Fees
Subtotal General Obligation Bonds		\$12,690,000	\$2,768,235			
General Purpose Revenue Obligations						
Certificates of Participation						
1996A	Certificates of Participation Balboa Park/Mission Bay Park Improvements Program	\$15,440,000	\$3,527,088	FY 2011	Eng/Public Bldgs & Parks	Transient Occupancy Tax
1996B	Refunding Certificates of Participation Balboa Park/Mission Bay Park Improvements Program	\$9,180,000	\$877,165	FY 2022	Eng/Public Bldgs & Parks	Transient Occupancy Tax
2003	1993 Balboa Park/Mission Bay Park Improvements Program Refunding Certificates of Participation	\$14,000,000	\$2,155,129	FY 2024 ⁽¹⁾	Eng/Public Bldgs & Parks	Transient Occupancy Tax
Lease Revenue Bonds						
1994	City/MTDB Authority Refunding - Bayside Trolley Extension ⁽²⁾	\$10,240,000	\$2,929,483	FY 2010	Trolley Extension Reserve	Transient Occupancy Tax
1996	Qualcomm (Jack Murphy) Stadium	\$60,490,000	\$5,769,248	FY 2027	Qualcomm Stadium	Stadium Revenues & Midway/Sports Arena Leases
1998	Convention Center Expansion Authority	\$183,300,000	\$13,698,665	FY 2028	Convention Center Complex	Transient Occupancy Tax & Port Authority Contribution
2002A	Ballpark and Redevelopment Project	\$167,560,000	\$15,038,338	FY 2032	Ballpark Facility	Transient Occupancy Tax
2002B	Fire and Life Safety Facilities Project	\$23,780,000	\$1,629,458	FY 2032	Fire and Life Safety Services	Safety Sales Tax
2003	1993 City/MTDB Authority Refunding - Old Town Trolley Extension	\$14,050,000	\$1,154,949	FY 2023	Trolley Extension Reserve	Transient Occupancy Tax
Subtotal General Purpose Revenue Obligations		\$498,040,000	\$46,779,523			
Total General Obligation/General Purpose Revenue Obligations		\$510,730,000	\$49,547,758			
Wastewater & Water System Obligations ⁽³⁾						
<i>Sewer Improvements</i>						
1993	Sewer Revenue Bonds	\$182,370,000	\$16,321,451	FY 2023	Metropolitan Wastewater	Net Sewer System Revenues
1995	Sewer Revenue Bonds	\$284,505,000	\$23,583,116	FY 2025	Metropolitan Wastewater	Net Sewer System Revenues
1997	Sewer Revenue Bonds	\$208,500,000	\$16,636,013	FY 2027	Metropolitan Wastewater	Net Sewer System Revenues
1999	Sewer Revenue Bonds	\$277,330,000	\$20,510,758	FY 2029	Metropolitan Wastewater	Net Sewer System Revenues
2004	Sewer Revenue Bonds (Private Placement)	\$152,000,000	\$21,300,000 ⁽⁴⁾	FY 2012	Metropolitan Wastewater	Net Sewer System Revenues
<i>Water Improvements</i>						
1998	Water Certificates of Undivided Interest	\$271,055,000	\$21,351,114	FY 2028	Water	Net Water System Revenues
2002	Subordinated Water Revenue Bonds	\$286,945,000	\$18,031,808	FY 2032	Water	Net Water System Revenues
Total Non-General Fund Commitments		\$1,662,705,000	\$137,734,259			

(1) The 2003 Balboa Park/Mission Bay Park Refunding Series consists of 2 underlying leases - (a) The North Course Torrey Pines lease (which terminates in FY 2009) and (b) The House of Charm lease (which terminates in FY 2024).

(2) Fiscal Year 2006 was the last payment towards the Police Improvements Lease component of the 1994 MTDB refunding Bonds.

(3) Does not reflect outstanding State Revolving Fund (SRF) loan obligations pertaining to Wastewater and Water Systems.

(4) Variable rate debt. Estimated debt payments subject to change based on market conditions and LIBOR periods selected.

Debt Management



In addition to long term debt obligations, the City annually issues Short Term **Tax and Revenue Anticipation Notes** (TRANS) in June to meet General Fund cash flow needs, in anticipation of the receipt of property tax revenues in November. In June 2005, the City Council approved, via Resolution R-300509, a privately placed Note Purchase Agreement with Bank of America in an amount not-to-exceed \$155 million, to meet the cash flow needs for Fiscal Year 2006. The City borrowed \$145 million via this Note Purchase Agreement. As of March 2006, the City has paid down \$89.5 million and expects to pay off the remaining portion of the note no later than May 2006.



The City's **Equipment and Vehicle Financing Program** provides a mechanism for the short term lease purchases of essential equipment in addition to the pay as you go basis funding. The lease purchases are typically over a three to seven year term.

From time to time, the City of San Diego Redevelopment Agency, Special Assessment or Community Facilities Districts, and the San Diego Housing Commission issue long term debt.



The State Redevelopment Law gives the **City of San Diego Redevelopment Agency**, administered by the City's Redevelopment Division, the Centre City Development Corporation (CCDC), and the Southeastern Economic Development Corporation (SEDC), the authority to issue Tax Allocation Bonds as a means for financing redevelopment projects. The Tax Allocation Bonds are secured by allocation of tax increment revenues collected within a redevelopment project area. The bonds are special obligations of the Redevelopment Agency and are not a debt of the City, the State, or any of their political subdivisions other than the Redevelopment Agency.

In addition to the long term bond issuances, the City and the City of San Diego Redevelopment Agency have outstanding Housing and Urban Development loan obligations to be repaid from the future Community Development Block Grant entitlements and other sources of revenues.

Debt Management



Under various sections of State law, the City may establish **Special Assessment or Community Facilities (Mello-Roos) Districts** and issue limited obligation bonds to finance infrastructure facilities and other public improvements necessary to facilitate development of the properties within each district. The bonds are secured solely by the properties in the district, and are not personal obligations of the property owners. The bonds are repaid through revenues generated by the annual levy of special assessments or special taxes on the benefiting properties. Although the City is not obligated to make debt service payments on special assessment or special tax bonds, the City has, when necessary, taken proactive measures to help protect the interests of these bondholders.

The **San Diego Housing Commission's Multifamily Bond Program** administers multifamily tax-exempt financing for various projects. Based on tax exemption of the interest income on municipal bonds, the Multifamily Bond Program offers below market financing to developers of multifamily rental projects that set aside a portion of the units in their projects as affordable housing.

Activities eligible for financing include new construction, acquisition, and rehabilitation of projects located in the City of San Diego. The bonds do not constitute a debt or liability of the City, the Housing Authority, or the Housing Commission. The security for bond repayment is limited to specific private revenue sources, such as project revenues, guarantees by the credit provider, or the value of the projects themselves. The program is self-supporting and the developers are responsible for paying the costs associated with each financing.



NOTE

AT THE TIME OF PUBLICATION, AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2005 WERE NOT AVAILABLE. THEREFORE, THE FISCAL YEAR 2005 COLUMN IN THE BUDGET SCHEDULES REFLECTS THE ANNUAL FISCAL YEAR 2005 BUDGET AMOUNTS.

Schedule I – City Department Summary by Fund includes Full-Time Equivalent counts, Personnel Expense, Non-Personnel Expense and total Fiscal Year 2007 Proposed Budget amounts. General Fund revenue is also provided.

Schedule II – Capital Improvements Program by Revenue Source breaks down one year of actual expenditures, the current budgeted year, the next fiscal year's proposed budget, and ten years of projected expenditures by the revenue sources utilized.

Schedule III – Maintenance Assessment Districts Summary includes Full-Time Equivalent counts, Personnel Expense, Non-Personnel Expense and total FY07 Proposed budget amounts.

Schedules

Schedule I - City Funds Summary

Fund Type	Positions	Personnel Expense	Non-Personnel Expense	Fiscal Year 2007 Proposed	Fiscal Year 2007 Revenue
GENERAL FUND					
Business & Grant Administration	10.25	\$ 904,975	\$ 103,616	\$ 1,008,591	\$ 41,516
Business & Support Services	8.00	862,949	206,851	1,069,800	-
Chief Operating Office	17.50	2,830,784	161,394	2,992,178	80,000
City Attorney	335.22	34,906,733	1,384,745	36,291,478	8,014,550
City Auditor and Comptroller	108.00	10,416,944	2,972,978	13,389,922	3,022,039
City Clerk	45.00	3,402,851	720,815	4,123,666	42,625
City Council	99.00	9,334,936	1,427,804	10,762,740	-
City Treasurer	102.95	8,326,124	3,539,956	11,866,080	17,915,000
Citywide Program Expenditures	-	-	413,172,046	413,172,046	374,000,000
Community and Economic Development	47.40	4,306,672	6,520,364	10,827,036	3,376,741
Community and Legislative Services	22.00	2,627,718	1,015,815	3,643,533	909,391
Customer Services	18.00	1,343,202	523,686	1,866,888	212,037
Department of Finance	1.00	202,172	-	202,172	-
Engineering and Capital Projects	292.22	29,467,183	5,754,259	35,221,442	27,906,008
Environmental Services	134.75	11,116,179	27,974,098	39,090,277	354,079
Equal Opportunity Contracting	25.00	2,087,279	348,222	2,435,501	2,215,711
Ethics Commission	4.75	482,246	52,962	535,208	-
Family Justice Center	5.00	506,731	164,691	671,422	-
Financial Management	55.00	4,705,223	1,343,540	6,048,763	1,853,389
General Services	558.74	42,235,915	34,169,388	76,405,303	67,506,615
Governmental Relations	1.00	171,027	14,669	185,696	248,803
Human Resources	33.00	2,940,329	1,023,951	3,964,280	2,971,189
Library	416.36	28,801,388	9,770,380	38,571,768	1,834,801
Mayor	2.00	178,817	50,802	229,619	-
Metropolitan Wastewater	25.34	2,234,861	11,328,063	13,562,924	471,984
Neighborhood Code Compliance	72.00	5,749,650	781,416	6,531,066	1,621,088
Office of Ethics and Integrity	7.00	791,380	379,492	1,170,872	484,101
Office of the CIO	-	-	12,594,392	12,594,392	-
Office of Homeland Security	11.40	1,146,612	417,605	1,564,217	886,666
Park & Recreation	845.15	52,944,151	30,457,035	83,401,186	20,415,883
Personnel	65.38	6,121,049	876,457	6,997,506	641,776
Planning	59.25	5,636,167	1,017,526	6,653,693	3,575,001
Police	2,788.00	314,318,074	46,356,270	360,674,344	24,645,141
Public Safety	2.00	216,024	2,262,286	2,478,310	131,109
Purchasing and Contracting	12.00	895,642	375,783	1,271,425	-
Real Estate Assets	39.00	3,650,844	1,140,199	4,791,043	32,469,606
San Diego Fire-Rescue	1,191.26	150,999,117	18,696,788	169,695,905	14,742,682
Special Projects	6.00	763,010	381,586	1,144,596	856,525
	7,465.92	\$ 747,624,958	\$ 639,481,930	\$ 1,387,106,888	\$ 613,446,056
Non-Department Revenue					
Property Taxes					
Property Tax	N/A	N/A	N/A	N/A	\$ 344,196,284
Property Transfer Tax	N/A	N/A	N/A	N/A	14,872,876
Sales Taxes					
Sales Tax	N/A	N/A	N/A	N/A	234,876,334
Safety Sales Tax	N/A	N/A	N/A	N/A	8,193,840
Transient Occupancy Tax	N/A	N/A	N/A	N/A	72,862,596
Franchise Fees	N/A	N/A	N/A	N/A	64,628,933
Motor Vehicle License Fees	N/A	N/A	N/A	N/A	9,255,341
Other	N/A	N/A	N/A	N/A	24,774,628
					\$ 773,660,832
Total	7,465.92	\$ 747,624,958	\$ 639,481,930	\$ 1,387,106,888	\$ 1,387,106,888

Schedules

Schedule I - City Funds Summary

Fund Type	Positions	Personnel Expense	Non-Personnel Expense	Fiscal Year 2007 Proposed	Fiscal Year 2007 Revenue
SPECIAL REVENUE FUNDS					
City Treasurer	6.05	631,555	243,512	875,067	912,279
Commission for Arts and Culture	7.00	695,467	236,034	931,501	166,540
Community and Economic Development	41.30	4,148,079	521,747	4,669,826	4,233,959
Convention Center	-	50,000	18,438,034	18,488,034	18,488,034
Development Services	6.00	580,830	320,450	901,280	846,028
Engineering and Capital Projects	12.30	1,002,321	534,036	1,536,357	42,347,124
Environmental Services	10.00	999,836	1,012,675	2,012,511	2,012,511
Gas Tax	-	-	24,117,687	24,117,687	24,117,687
Library	8.60	602,696	77,778	680,474	514,346
Mission Bay Improvements	-	-	1,097,595	1,097,595	1,097,595
Municipal Parking Garage	3.50	289,437	2,527,654	2,817,091	3,187,248
Office of the CIO	77.38	8,073,697	1,842,492	9,916,189	10,202,940
Park & Recreation	2.00	160,352	12,021,820	12,182,172	11,728,904
PEICO Park	1.00	161,318	21,034,480	21,195,798	20,670,999
Planning	17.00	1,664,610	912,505	2,577,115	2,291,978
Police	-	797,904	12,788,945	13,586,849	12,800,507
Regional Park Improvements	-	-	1,097,595	1,097,595	1,097,595
QUALCOMM Stadium	21.75	2,943,172	13,050,041	15,993,213	15,681,009
San Diego Fire-Rescue	87.90	7,551,876	2,538,954	10,090,830	9,767,611
Special Promotional Programs	1.00	88,673	70,104,802	70,193,475	70,958,436
Storm Drain Fund	-	-	6,046,746	6,046,746	6,046,746
TransNet	-	-	42,327,539	42,327,539	42,327,539
Trolley Extension Reserve	-	-	4,113,932	4,113,932	4,079,172
Total	302.78	\$ 30,441,823	\$ 237,007,053	\$ 267,448,876	\$ 305,576,787
DEBT SERVICE AND TAX FUNDS					
Bond Interest and Redemption	-	\$ -	\$ 2,329,935	\$ 2,329,935	\$ 2,408,931
Tax Anticipation Notes	-	-	2,130,000	2,130,000	2,137,500
Zoological Exhibits	-	-	7,676,765	7,676,765	7,676,765
Total	0.00	\$ -	\$ 12,136,700	\$ 12,136,700	\$ 12,223,196
ENTERPRISE FUNDS					
Development Services	576.00	\$ 50,571,090	\$ 10,967,063	\$ 61,538,153	\$ 62,540,157
Park & Recreation	96.00	6,151,640	5,527,170	11,678,810	12,167,000
Environmental Services	352.33	27,393,674	33,554,146	60,947,820	59,415,152
General Services	19.50	1,385,088	1,758,817	3,143,905	4,101,195
Water	914.06	74,283,941	285,157,722	359,441,663	359,825,406
Metropolitan Wastewater	1,051.74	93,284,551	316,850,954	410,135,505	338,564,516
Total	3,009.63	\$ 253,069,984	\$ 653,815,872	\$ 906,885,856	\$ 836,613,426
INTERNAL SERVICE FUNDS					
Financial Management	22.00	\$ 1,326,567	\$ 17,367,546	\$ 18,694,113	\$ 19,297,359
Risk Management	62.75	5,314,411	4,656,961	9,971,372	12,138,162
Engineering and Capital Projects	210.48	16,964,080	8,998,108	25,962,188	25,962,188
General Services	214.50	15,436,228	30,185,188	45,621,416	54,605,314
Special Promotional Programs	-	-	6,948,990	6,948,990	6,948,990
Total	509.73	\$ 39,041,286	\$ 68,156,793	\$ 107,198,079	\$ 118,952,013
OTHER FUNDS					
City Retirement System	50.00	\$ 5,469,071	\$ 27,735,851	\$ 33,204,922	\$ -
Park & Recreation	-	-	438,300	438,300	491,800
Total	50.00	\$ 5,469,071	\$ 28,174,151	\$ 33,643,222	\$ 491,800
GRAND TOTAL	3872.14	\$ 328,022,164	\$ 999,290,569	\$ 1,327,312,733	\$ 1,273,857,222
ALL FUNDS TOTAL	11,338.06	\$ 1,075,647,122	\$ 1,638,772,499	\$ 2,714,419,621	\$ 2,660,964,110 *

Funds where expenditures exceed revenues are projected to be mitigated by fund balances.

Schedules

Schedule II - Capital Improvements Program by Revenue Source

	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007
	Budget	Budget	Proposed
Airports Fund	\$ 490,000	\$ 400,000	\$ 1,000,000
Antenna Lease Revenue - Park and Recreation	\$ -	\$ -	\$ 150,000
Assesment District	\$ -		\$ 235,000
Capital Outlay - Sales Tax and Other	\$ 380,860	\$ 834,046	\$ 125,000
City General Fund	\$ -	\$ 2,103,103	\$ 446,955
Community Development Block Grants	\$ 2,492,438	\$ 1,771,326	\$ 1,491,326
Congestion Mitigation and Air Quality	\$ 500,000	\$ 400,000	\$ 3,400,000
Developer	\$ (6,320)	\$ 18,025,875	\$ 11,743,000
Development Impact Fees	\$ 235,111	\$ 1,089,000	\$ 446,500
DIF - Planned Urbanizing Communities	\$ 1,700,000	\$ -	\$ -
Environmental Growth Funds	\$ 350,030	\$ 390,000	\$ 200,000
Environmental Services	\$ 5,663,000	\$ 5,067,000	\$ 6,457,000
Facilities Benefit Assessment	\$ 39,379,162	\$ 51,706,376	\$ 53,303,683
Federal Grants	\$ 6,988,240	\$ 350,000	\$ -
Golf Course Enterprise Fund	\$ 778,000	\$ 3,700,000	\$ -
Highway Bridge Replacement/Repair	\$ 1,813,400	\$ 12,531,271	\$ 23,788,434
Housing and Urban Development 108	\$ 10,550,500	\$ -	\$ -
Lease Revenue Bonds	\$ 52,376,444	\$ 104,211,079	\$ 29,303,092
Other City Funds	\$ -	\$ -	\$ 1,250,000
Other Funding	\$ 5,887,679	\$ 11,853,775	\$ 1,500,000
Other Water	\$ -		\$ 546,345
Park Development Fees	\$ -	\$ 894,549	\$ -
Park Service District Fees	\$ 26,044	\$ 99,564	\$ -
Private Contributions	\$ 43,087,330	\$ 3,779,064	\$ -
San Diego Association of Governments	\$ -	\$ 103,000	\$ -
Proposition A Bike Ways	\$ -	\$ -	\$ 973,554
QUALCOMM Stadium	\$ 625,400	\$ 750,000	\$ 750,000
Redevelopment Agency	\$ 3,829,100	\$ 10,000,000	\$ -
Sewer Revenue - Expansion	\$ 24,835,540	\$ 6,221,155	\$ 4,680,254
Sewer Revenue - Replacement	\$ 93,926,559	\$ 30,424,711	\$ 34,840,630
Sludge Mitigation Fund	\$ 227,000	\$ 74,655	\$ -
State Grants	\$ 12,472,148	\$ 18,038,105	\$ 480,000
Surface Transportation Program	\$ 6,154,315	\$ -	\$ -
Transient Occupancy Tax	\$ -	\$ 58,000	\$ -
TransNet	\$ 14,333,600	\$ 15,397,130	\$ 19,244,768
TransNet Commercial Paper	\$ 29,345,662	\$ 28,388,825	\$ 7,115,000
Utility	\$ 37,593,119	\$ 51,258,323	\$ 55,000,000
Water Revenue - Expansion	\$ 16,016,956	\$ 3,933,193	\$ 10,175,797
Water Revenue - Replacement	\$ 49,736,199	\$ 5,795,683	\$ 20,329,965
Total	\$ 461,787,516	\$ 389,648,808	\$ 288,976,303

Schedules

Schedule III - Maintenance Assessment District Summary

	Positions	Personnel Expense	Non-Personnel Expense	Fiscal Year 2007 Proposed
Assessment District Management	9.00	\$ 801,495	\$ 997,084	\$ 1,798,579
Adams Avenue	0.00	\$ -	\$ 53,198	\$ 53,198
Bay Terraces - Honey Drive	0.02	\$ 1,751	\$ 24,096	\$ 25,847
Bay Terraces - Parkside	0.05	\$ 4,375	\$ 51,386	\$ 55,761
Bird Rock	0.00	\$ -	\$ 183,298	\$ 183,298
Black Mtn Ranch South	1.00	\$ 87,521	\$ 984,235	\$ 1,071,756
Calle Cristobal	0.20	\$ 17,505	\$ 336,353	\$ 353,858
Campus Point	0.05	\$ 4,375	\$ 36,642	\$ 41,017
Carmel Mountain Ranch	0.30	\$ 26,255	\$ 609,792	\$ 636,047
Carmel Valley	1.85	\$ 161,912	\$ 2,225,847	\$ 2,387,759
Carmel Valley Neighborhood #10	0.30	\$ 26,255	\$ 508,509	\$ 534,764
CED Management	0.00	\$ -	\$ 193,255	\$ 193,255
Central Commercial	0.00	\$ -	\$ 339,550	\$ 339,550
City Heights	0.00	\$ -	\$ 482,118	\$ 482,118
College Heights	0.00	\$ -	\$ 439,653	\$ 439,653
Coral Gate	0.25	\$ 21,879	\$ 188,120	\$ 209,999
Coronado View	0.03	\$ 2,626	\$ 33,176	\$ 35,802
Del Mar Terrace	0.00	\$ -	\$ 294,162	\$ 294,162
Downtown PBID	0.00	\$ -	\$ 5,803,550	\$ 5,803,550
Eastgate Technology Park	0.20	\$ 17,504	\$ 283,180	\$ 300,684
El Cajon Boulevard	0.40	\$ 35,007	\$ 437,723	\$ 472,730
First SD River Imp Project	0.40	\$ 35,006	\$ 261,292	\$ 296,298
Gateway Center East	0.20	\$ 17,505	\$ 259,847	\$ 277,352
Hillcrest	0.05	\$ 4,375	\$ 29,918	\$ 34,293
Kings Row	0.03	\$ 2,626	\$ 11,066	\$ 13,692
La Jolla Village Drive	0.15	\$ 13,126	\$ 101,172	\$ 114,298
Liberty Station/NTC	0.00	\$ -	\$ 208,636	\$ 208,636
Linda Vista Community	0.25	\$ 21,879	\$ 222,422	\$ 244,301
Little Italy	0.00	\$ -	\$ 614,960	\$ 614,960
Mira Mesa	0.80	\$ 70,017	\$ 1,338,213	\$ 1,408,230
Miramar Ranch North	1.00	\$ 87,520	\$ 2,270,900	\$ 2,358,420
Mission Boulevard	0.05	\$ 4,375	\$ 148,020	\$ 152,395
Newport Avenue	0.00	\$ -	\$ 53,094	\$ 53,094
North Park	0.42	\$ 36,757	\$ 759,801	\$ 796,558
Ocean View Hills	0.61	\$ 53,388	\$ 1,041,374	\$ 1,094,762
Otay International Center	0.50	\$ 43,762	\$ 403,841	\$ 447,603
Pacific Highlands Ranch	0.15	\$ 13,128	\$ 227,531	\$ 240,659
Park Village	0.35	\$ 30,631	\$ 534,594	\$ 565,225
Penasquitos East	0.50	\$ 43,762	\$ 423,913	\$ 467,675
Rancho Bernardo	0.50	\$ 43,762	\$ 666,931	\$ 710,693
Rancho Encantada	0.04	\$ 3,502	\$ 183,577	\$ 187,079
Remington Hills	0.00	\$ -	\$ 84,364	\$ 84,364
Robinhood Ridge	0.14	\$ 12,253	\$ 135,538	\$ 147,791
Sabre Springs	0.30	\$ 26,255	\$ 269,870	\$ 296,125
Scripps/Miramar Ranch	1.00	\$ 87,520	\$ 987,507	\$ 1,075,027

Schedules

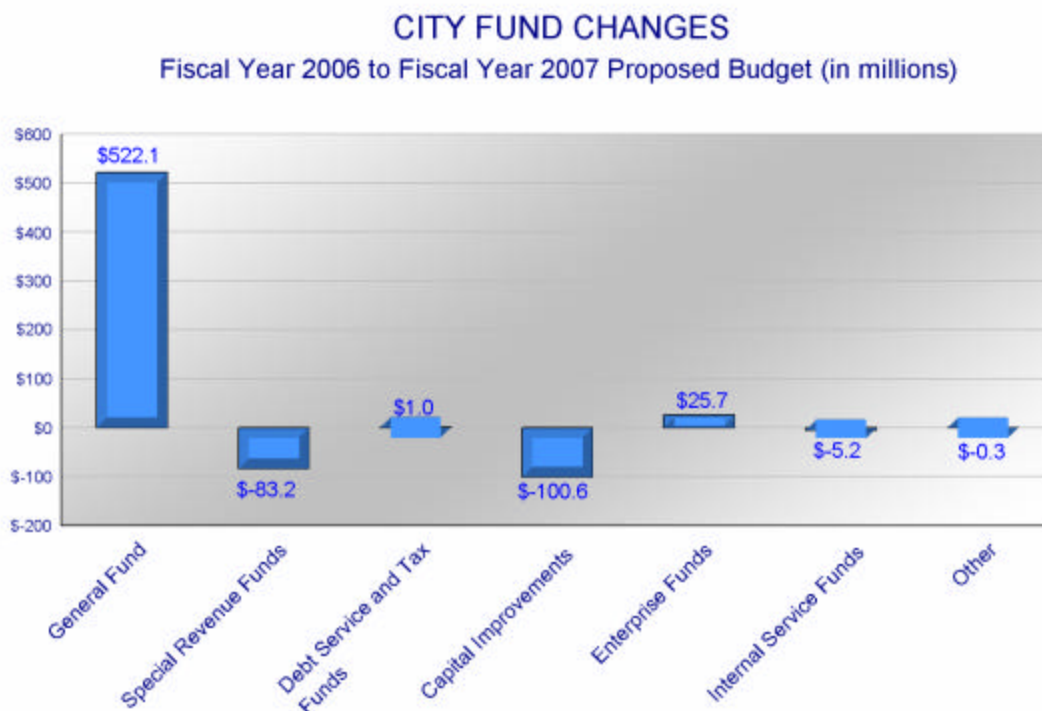
	Positions	Personnel Expense	Non-Personnel Expense	Fiscal Year 2007 Proposed
Stonecrest Village	0.75	\$ 65,638	\$ 964,707	\$ 1,030,345
Street Light District #1	0.00	\$ -	\$ 622,544	\$ 622,544
Talmadge	0.08	\$ 7,001	\$ 214,663	\$ 221,664
Tierrasanta	1.00	\$ 87,520	\$ 1,758,829	\$ 1,846,349
Torrey Highlands	1.00	\$ 87,521	\$ 518,595	\$ 606,116
Torrey Hills	1.00	\$ 87,520	\$ 2,162,195	\$ 2,249,715
University Heights	0.05	\$ 4,375	\$ 72,373	\$ 76,748
Washington Street	0.05	\$ 4,375	\$ 120,331	\$ 124,706
Webster-Federal Boulevard	0.07	\$ 6,126	\$ 95,883	\$ 102,009
Total	25.09	\$ 2,209,685	\$ 32,273,428	\$ 34,483,113



City Budget



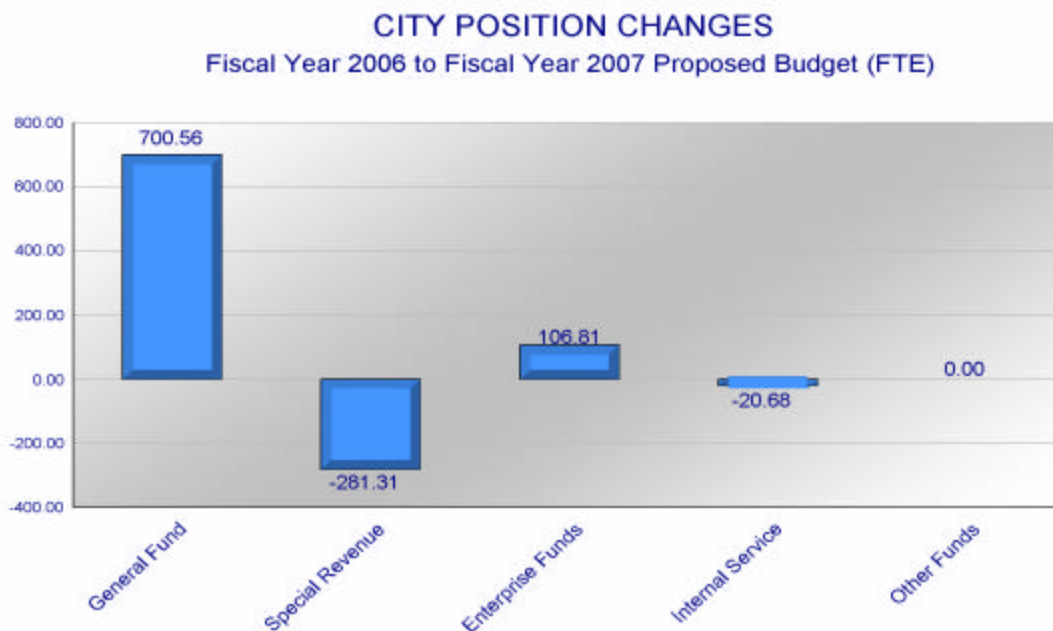
The City of San Diego's total combined Fiscal Year 2007 Proposed Budget reflects revenues and expenditures totaling \$3.0 billion, which is an **increase of 13.43 percent** from Fiscal Year 2006. Included within the \$3.0 billion proposed budget is \$374 million of net proceeds from the sale of Pension Obligation Bonds. Removing this one-time transaction from the budget, there would be an overall decrease from Fiscal Year 2006 of 0.54 percent. Five types of revenue funds compose the majority of the Fiscal Year 2007 Proposed Budget: General Fund, Enterprise Funds, Special Revenue Funds, Capital Improvements Funds, and Debt Service and Tax Funds. The following graph demonstrates a breakdown of these funds:



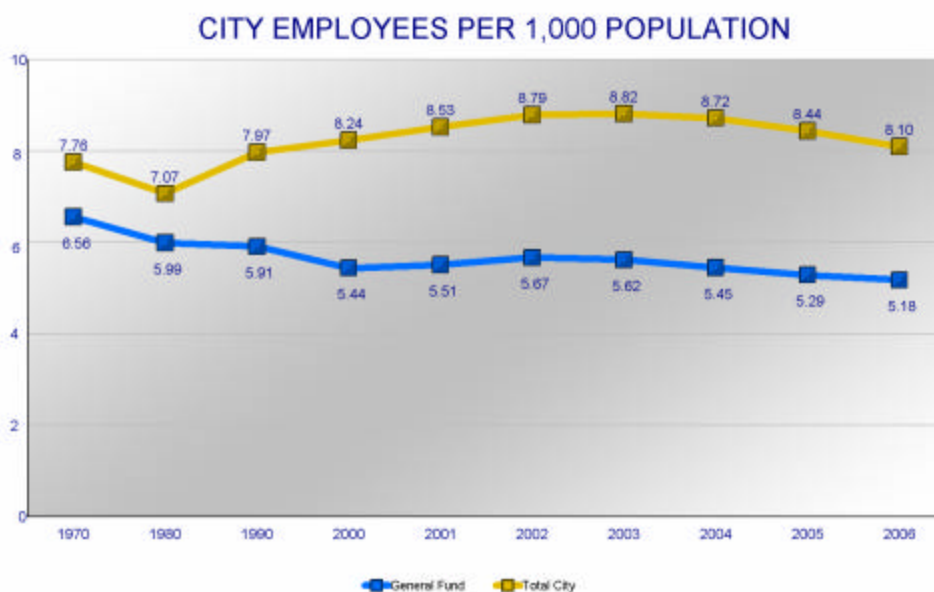
At a Glance

City Budget

The Fiscal Year 2007 Proposed Budget includes an **increase of 505.38 positions** for all City funds. The increase includes **429.06 "supplemental positions"** that were not budgeted in previous fiscal years. The following graph displays a breakdown of position changes by fund:



The following chart represents how the number of City employees per 1,000 population has changed since 1970:



Figures are projected as of January 1st for each year.
Source: City of San Diego Planning Department Urban Analysis

City Budget

State of California Budget Impacts

- Repayment of ERAF III shift - \$16.8 million
- Reinstatement of booking fees - \$5.2 million
- More information and proposals about other program funding is expected to be released at the time of the Governor's May Budget Revise



At a Glance

City Budget



- The Strategic Framework – the infrastructure needed to support the “City of Villages” concept
- National Pollution Discharge Elimination System (NPDES) Permit – to fund efforts to meet storm water permit requirements
- Underground Storage Tanks
- Unfunded Actuarial Accrued Liability of Pension System
- Unfunded Actuarial Accrued Liability for other Post Employment Benefits (i.e. Retiree Health Care)

Beyond what has been presented in this proposed budget, there are continuing needs throughout City operations that warrant additional funding in Fiscal Year 2007 and beyond. As this budget represents a recovery program, including funding reductions, many of these needs will remain unfunded. It is anticipated that in conjunction with the components of the recovery program and following the plan set forth in the Multi-Year Financial Forecast, action toward addressing some of these unfunded needs may be considered as early as Fiscal Year 2008. The **remaining challenges** include:

- Public Safety Needs: equipment, and staffing
- Basic Operating Needs: to provide customer service at expected levels to the community
- Deferred Maintenance